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NEW DAVIES PETROLEUMS
LIMITED

Annual Report

**FOR THE YEAR ENDED
JUNE 30, 1966**

NEW DAVIES PETROLEUMS LIMITED

Incorporated under the laws of the Province of Alberta

HEAD OFFICE:

330 - 9TH AVENUE S.W., CALGARY, ALBERTA

EXECUTIVE OFFICE:

62 RICHMOND ST. W., TORONTO, ONTARIO

OFFICERS

E. FRANKLIN FURNISS - - - - - President

ROBERT BROWN - - - - - Vice-President

VICTOR H. HEDGES - - - - - Secretary-Treasurer

DIRECTORS

E. FRANKLIN FURNISS

ROBERT BROWN

VICTOR H. HEDGES

MURRAY COOPER

SAMUEL YOUNG

BRUCE A. BLACKBURN

TRANSFER AGENTS & REGISTRAR

GUARANTY TRUST CO. OF CANADA - Calgary, Alberta
& Toronto, Ontario

AUDITORS

FISHER, NISKER & COMPANY - - - - - Toronto

SHARES LISTED

TORONTO STOCK EXCHANGE

CANADIAN STOCK EXCHANGE

CALGARY STOCK EXCHANGE

VANCOUVER STOCK EXCHANGE

DIRECTORS' REPORT

To The Shareholders

NEW DAVIES PETROLEUMS LIMITED

Your Directors submit herewith the Auditors Report, Balance Sheet, and related Financial Statements for the fiscal year ended June 30, 1966.

Exploration

North West Territories

Your Company's claims in the Pine Point Area lying approximately two and a half miles south of Pine Point and Pyramid Mining Properties, which may be the richest lead-zinc mines in Canada, are presently being explored by means of an induced polarization survey. Your property is comprised of 30 mineral claims of a group of 65 being held under a joint working option with Silver Miller Mines Limited. Earlier this year your Company had completed the cutting of grid lines over all the claims. An induced polarization survey was commenced but was suspended due to unsatisfactory ground conditions.

By agreement dated September 20, 1966, Patricia Silver Mines Limited agreed, at its sole expense, to (a) complete an induced polarization survey over all 65 claims, and (b) drill one diamond drill hole. In consideration of the foregoing Patricia Silver Mines Limited will earn a 50% interest in the claims. All further exploration and development work and option payments are to be borne in accordance with their respective interests.

Our consulting engineer, Mr. J. D. Harvey, B.Sc., P.Eng. states that your Company's property lies within the favorable belt of sedimentary rocks and is considered to be well located. The induced polarization survey now being carried out on your claims is expected to be completed sometime during January 1967, the results of which are awaited with great interest.

Scotland

Consolidated Gold Fields have to date expended approximately \$156,000.00 on their examination of the Bells Grove main vein of which \$128,500.00 was attributable to diamond drilling, \$24,000.00 to assays, engineering, and geological services, and \$3,500.00 to the re-entry of the Bells Grove shaft.

Consideration is now being given to a program of exploration at Corrantee, west of the main vein. Two plans are being considered as follows:

Plan 1 — Extend the existing 750 foot Corrantee Adit by 1000 feet at a cost of \$105,000.00.

Plan 2 — Investigate the entire 32,000 acre concession by the following steps:

(a) Stream sampling	\$ 6,000.00
(b) Soil sampling	15,000.00
(c) Geophysical	18,000.00
(d) Diamond drilling	36,000.00
(e) Miscellaneous	15,000.00
	\$90,000.00

The Consolidated Gold Fields decision concerning the foregoing plans is expected in January, 1967.

Other Areas

On the advice of our engineers the Duprat Township Quebec claims were allowed to lapse.

Your Company's oil wells in the Turner Valley Field, Alberta, continue to provide the Company with a modest income.

The Annual Meeting of shareholders will be held in Toronto on Friday, December 30th, 1966, at the time and place noted in the accompanying Notice of Meeting. In the event you are unable to attend the forthcoming Annual Meeting of our shareholders, you are requested to sign and return the enclosed proxy to ensure your representation at the meeting.

On Behalf of the Board of Directors.
E. F. FURNISS
President

Toronto, Ontario, December 9, 1966.

NEW DAVIES PETROLEUMS LIMITED

(Incorporated under the laws of the Province of Alberta)

BALANCE SHEET AS AT JUNE 30, 1966

ASSETS

Current assets

Cash	\$ 6,050.37		
Deposit receipt	10,000.00		
Accounts receivable	4,563.69		
Marketable securities, at cost:			
Shares of affiliated company			
(market value \$16,000.00)	\$11,500.00		
Other shares (market value \$41,000.00)	43,217.50	54,717.50	\$ 75,331.56

Capital assets (Notes 1 and 2)

Interest in petroleum and natural gas leases and producing wells (acquired from predecessor company)	\$ 37,136.17		
Production equipment, at cost	6,504.80		
Interest in an option on mining claims (Note 3)	27,000.00		
Exploration license in Scotland, at valuation attributed to 100,000 shares of capital stock issued therefor plus \$125,000.00 paid in cash (Note 4)	142,500.00		
Office furniture and equipment, at cost less \$355.71 depreciation	559.90		
Royalties, at nominal value	2.00	213,702.87	

Deferred expenditures

Mine exploration, per statement	\$138,571.08		
Organization cost	10,355.52	148,926.60	
		<u>\$437,961.03</u>	

LIABILITIES

Current liabilities

Accounts payable		\$ 9,718.01	
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Capital and deficit

Capital stock

Authorized:			
4,000,000 shares without par value			
Issued and fully paid:			
3,513,937 shares	\$1,469,468.50		

Deficit, per statement	1,041,225.48	428,243.02	
		<u>\$437,961.03</u>	

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board of Directors:

"E. F. FURNISS", Director

"V. H. HEDGES", Director

NEW DAVIES PETROLEUMS LIMITED

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED JUNE 30, 1966

Revenue

Production from wells	\$ 4,204.40		
Deduct — royalties	\$ 664.71		
— operating expenses	1,870.79	2,535.50	\$ 1,668.90
Expense recovery out of production			1,088.95

Profit from production (before depletion, amortization and depreciation) \$ 2,757.85

Administrative and general expenditures

Accounting and secretarial services	\$ 4,050.00		
Management fees	900.00		
Share issue and transfer expenses	2,323.59		
Directors' and officers' salaries	1,750.00		
Legal and audit fees	2,660.56		
Shareholders' meeting and information	944.32		
Directors' fees	525.00		
Stock exchange fees and expenses	833.16		
Telephone and telegraph	658.30		
Depreciation — office furniture and equipment	91.59		
General office expenses	524.01		
	\$ 15,260.53		
Less — portion transferred to deferred mine exploration	7,800.56	7,459.97	

Net loss before sundry income (\$ 4,702.12)

Deduct — interest and dividend income 2,778.93

Net loss for the year (\$ 1,923.19)

Mining claims abandoned or to be abandoned (acquired for 200,000 shares of capital stock and \$1,767.50 cash) \$101,767.50

Exploration expenditures incurred thereon and \$500.00 administrative expenditures apportioned to these claims 17,652.49

\$119,419.99

Less — profit from sale of securities 6,429.42 112,990.57

\$ 114,913.76

Deficit at June 30, 1965 926,311.72

Deficit at June 30, 1966 \$1,041,225.48

NEW DAVIES PETROLEUMS LIMITED

DEFERRED MINE EXPLORATION EXPENDITURES FOR THE YEAR ENDED JUNE 30, 1966

Balance deferred at June 30, 1966			\$134,408.87
Additions during year			
Pine Point area, N.W.T.			
Line cutting	\$5,183.05		
Geophysical survey	3,520.50		
Engineering fees	850.00		
Government fees	60.00	\$ 9,613.55	
Other properties			
Miscellaneous expenses		519.19	
		\$10,132.74	
Administrative travelling — Scotland		3,881.40	
Administrative and general expenditures apportioned to mine exploration		7,800.56	21,814.70
			\$156,223.57
Deduct — expenditures applicable to mining claims abandoned or to be abandoned			17,652.49
Balance deferred at June 30, 1966			\$138,571.08
Summary of deferred expenditures			
Exploration:			
County of Argyle, Scotland	\$98,141.24		
Pine Point, N.W.T.	9,613.55	\$107,754.79	
Administrative and general		30,816.29	
		\$138,571.08	

NOTES TO FINANCIAL STATEMENTS AS AT JUNE 30, 1966

Note 1 — By an agreement dated June 2, 1952 the company acquired all the assets and undertakings of Davies Petroleum Limited (non-personal liability) for a consideration of 1,849,994 shares of the company's capital stock. The assets acquired from this predecessor company and still owned by the company are carried at valuations determined by the management at time of acquisition except for two producing leases which were subsequently written down to a nominal value of \$2.00.

Note 2 — No provision has been made by the company for depletion of producing leases, amortization of producing well costs and depreciation of equipment since it acquired these assets. The necessary information to determine the amounts to be provided for is not available.

Note 3 — By an agreement dated November 24, 1965 (as amended September 17, 1966) the company and Silver-Miller Mines Limited acquired an assignment of a working option on a group of sixty-five unpatented mining claims in the Pine Point area, Northwest Territories, for a total consideration of \$58,000.00. The company's interest comprises a thirty claim group out of the total of sixty-five claims, for which the company paid \$27,000.00 as its share of the aforementioned \$58,000.00 consideration.

By an agreement dated September 20, 1966, Patricia Silver Mines Limited has agreed to participate in the company option. Patricia Silver Mines has agreed to carry out a geophysical survey over the mining claims and in order to continue its interest in the option Patricia must drill one hole.

The agreement provides for further development work to be borne as to 50% by Patricia and the balance divided 35/65 by Silver-Miller and 30/65 by New Davies, but none of the parties are required to pay their respective share of the development program unless they so elect and in the event of non-election the agreement makes provision for the disposition of the interest of the defaulting party.

To fully exercise the option, the original optionor is to receive an additional \$32,000.00 (\$16,000.00 on or before April 30, 1967 and \$16,000.00 on or before October 30, 1967) and 300,000 shares of a 3,000,000 share company to be incorporated to acquire the mining claims. The \$32,000.00 will be paid by the parties in the same ratio as the further development work is paid (as mentioned above) and any additional shares which the new company may issue for the mining claims will be issued to the parties in this ratio.

Some preliminary geophysical survey work had been performed by New Davies and Patricia Silver has agreed to reimburse the company \$3,520.50 representing the cost of this work.

Note 4 — The company and Scottish Canadian Highland Development & Exploration Limited have entered into a development agreement with Consolidated Gold Fields Limited for the exploration and development for minerals of certain lands in Scotland held under exploratory license. The portion thereof held by the company comprises some 1,380 acres and the remaining portion held by Scottish Canadian comprises some 32,200 adjoining acres.

Under the development agreement New Davies and Scottish Canadian have granted Consolidated Gold Fields Limited the sole right to carry out exploration and development work on the said lands, the nature, cost and extent of such work to be in Consolidated Gold Field's sole discretion. The exploration and development period granted to Consolidated Gold Fields was for two years from January 1, 1965, subsequently extended to December 1, 1968, and will be extended for a further period of one year if Consolidated Gold Fields has expended a minimum of \$250,000.00 on exploration and development work during the initial two year period. By letter dated August 17, 1966, Consolidated Gold Fields notified the company that it had expended approximately \$156,000.00 on the said lands.

If during the examination period Consolidated Gold Fields decides to bring a mine to production, it is required to notify the other parties and to proceed as it deems appropriate but with reasonable dispatch to implement such decision. As soon as the mine has attained the full rate of production, profits of the venture are to be applied in repayment pro rata of exploration expenses incurred by all the three parties to the development agreement. It has been agreed for this purpose that the exploration expenses for New Davies and Scottish Canadian is \$250,000.00.

New Davies and Scottish Canadian have further agreed that as payments on account of the said \$250,000.00 are received, same shall accrue to them pro rata in proportion to their actual exploration expenses until their respective exploration expenses have been fully repaid, and thereafter surplus monies, if any, will be divided equally between them.

After the exploration expenses have been repaid New Davies and Scottish Canadian will each receive 12½% of the profits derived from the mining operations or, if Consolidated Gold Fields so elects at any time before all exploration expenses have been repaid, a royalty of 37½c to each company for each ton of ore treated.

Fisher, Nisker & Company

CHARTERED ACCOUNTANTS

62 RICHMOND ST. WEST

TORONTO, ONTARIO

AUDITORS' REPORT

To The Shareholders of
New Davies Petroleums Limited

We have examined the balance sheet of New Davies Petroleums Limited as at June 30, 1966 and the statements of deferred mine exploration expenditures and operations and deficit for the year ended on that date. We have obtained all the information and explanations that we required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As stated in Note 2, provision has not been made for depletion, amortization and depreciation because the necessary information to determine the amount to be provided for is not available.

Subject to the foregoing qualification on the omission of provision for depletion, amortization and depreciation and its effect on the statement of operations and deficit, we report that, in our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statements of deferred mine exploration expenditures and operations and deficit are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at June 30, 1966 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

FISHER, NISKER & COMPANY,
Chartered Accountants.

Toronto, Ontario,
November 23, 1966.

